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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

2011 APR 26 P 12:41

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

APR 26 2011

DOCKETED BY

[Signature]

IN THE MATTER OF THE APPLICATION OF
BRADSHAW WATER COMPANY, INC. FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-02476A-10-0495

PROCEDURAL ORDER

BY THE COMMISSION:

On December 15, 2010, Bradshaw Water Company, Inc. ("Bradshaw") filed with the Arizona Corporation Commission ("Commission") an application for rate adjustment using a test year ("TY") ending December 31, 2009, and requesting a rate increase of \$11,251, or 8.72 percent, over its reported TY operating revenues of \$128,972. In its application, Bradshaw showed that it had a TY operating loss of \$197,723. With its application, Bradshaw filed an affidavit stating that Bradshaw had mailed notice of its application to all of its customers on December 15, 2010, and a copy of the notice sent. The notice stated that Bradshaw was seeking a revenue increase of \$11,251, or 8.55 percent of total revenues, and that Bradshaw's TY operating loss had been \$199,613. The notice also stated that pages 9 and 11 of the application were included with the notice, although the pages were not attached to the copy of the notice included in the application.

On January 14, 2011, the Commission's Utilities Division ("Staff") issued a Letter of Deficiency, stating that Bradshaw's application had not met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103.

On January 18, 2011, Bradshaw filed a revised customer notification letter, including revised pages 9 and 11 of the application, along with an affidavit stating that the revised notification had been mailed to Bradshaw's current customers on January 13, 2011. In the filing, Bradshaw also included several other revised application pages, including a revised income and expense statement showing TY operating revenues of \$131,813 and a TY operating loss of \$65,627.

On January 21, 2011, Staff issued a Letter of Sufficiency, stating that Bradshaw's application

1 had met the sufficiency requirements of A.A.C. R14-2-103(B)(7) and that Bradshaw had been
2 classified as a Class D utility.

3 On January 24, 2011, Bradshaw filed a letter including revised application pages and copies
4 of documentation for Bradshaw's wells.

5 On February 16, 2011, Bradshaw filed revised application pages.

6 On March 9, 2011, Bradshaw filed a letter stating that for years Bradshaw has been collecting
7 a \$1,650 impact fee per lot and then paying it to the Town of Prescott Valley ("Town"). Bradshaw
8 stated that Staff had pointed out that the impact fee is not in Bradshaw's tariff, and Bradshaw
9 requested that the Commission "bring this up to the Arizona Corporation Commission Administrative
10 Code."¹

11 On April 6, 2011, Staff issued a Staff Report, recommending that Staff's recommended rates
12 and charges be approved for Bradshaw and that Bradshaw be required to re-notify its customers,
13 within 30 days, because the Staff-recommended rates were higher than those requested by Bradshaw.
14 Staff explained that although Bradshaw had requested a rate increase of \$11,251, Bradshaw's
15 proposed rate design would actually result in an increase of \$21,783, or 16.53 percent, over
16 Bradshaw's TY revenue of \$131,813. Staff further stated that Staff recommends an increase of
17 \$51,808, or 38.95 percent, over Staff-adjusted TY revenue of \$133,026, which Staff asserted will
18 produce operating income of \$25,110, for an 8 percent rate of return on the Staff-adjusted original
19 cost rate base ("OCRB") of \$313,874. Staff also recommended that Bradshaw be authorized to
20 implement a Staff-recommended purchased water cost recovery adjustor mechanism and that
21 Bradshaw not be authorized to collect the \$1,650 impact fee.

22 Bradshaw has not filed a response to the Staff Report and has not filed proof of having
23 provided its customers additional notice as recommended in the Staff Report. Between April 18 and
24 20, 2011, four separate customer comments opposing Bradshaw's rate increase have been filed, three
25 of which appear to be responding to Staff's recommended rates and charges. There is nothing in the
26 record, however, to indicate whether notice of Staff's recommendations was provided or, if it was, in
27

28 ¹ This is believed to represent a request for the impact fee to be included in Bradshaw's tariff going forward.

1 what form. Thus, it is appropriate to require Bradshaw to provide its customers notice of Staff's
2 recommendations and to file proof of having provided such notice.

3 The Staff Report also discussed several issues for which additional information is necessary to
4 allow a full consideration of the issues by the Commission in its decision. Thus, it is appropriate to
5 require both Bradshaw and Staff to file additional information regarding those issues, as set forth
6 below.

7 IT IS THEREFORE ORDERED that **Bradshaw Water Company, Inc. shall, by May 9,**
8 **2011, send** to each of its current customers, by first class mail, the **following notice, along with a**
9 **copy of Schedule CSB-4 and a copy of Schedule CSB-5** from the Staff Report:

10 **SUPPLEMENTAL CUSTOMER NOTIFICATION**
11 **BRADSHAW WATER COMPANY, INC. RATE APPLICATION**
12 **DOCKET NO. W-02476A-10-0495**

13 Bradshaw Water Company, Inc. ("Bradshaw") has filed with the Arizona
14 Corporation Commission ("Commission") an application for a permanent rate
15 adjustment using a test year ("TY") ending December 31, 2009. Bradshaw's rate
16 application requests a rate increase of \$11,251, or 8.54%, over Bradshaw's TY
17 operating revenues of \$131,813. Bradshaw has reported a TY operating loss of
18 \$65,627.

19 On April 7, 2011, the Commission's Utilities Division ("Staff") issued a Staff
20 Report analyzing Bradshaw's rate application and making recommendations. In
21 the Staff Report, Staff recommends that Staff's recommended rates and charges be
22 approved for Bradshaw and that Bradshaw be required to re-notify its customers
23 because the Staff-recommended rates are higher than those requested by Bradshaw.
24 Staff explained that although Bradshaw requested a rate increase of \$11,251,
25 Bradshaw's proposed rate design actually would result in an increase of \$21,783, or
26 16.53 percent, over Bradshaw's TY revenue of \$131,813. Staff recommends an
27 increase of \$51,808, or 38.95 percent, over Staff-adjusted TY revenue of \$133,026.
28 Staff asserted that this would produce operating income of \$25,110, for an 8
percent rate of return on Bradshaw's original cost rate base ("OCRB") of \$313,874.
Schedules showing Bradshaw's current rates and charges, Bradshaw's proposed
rates and charges, and Staff's recommended rates and charges are attached hereto
for review.

Staff also recommends that Bradshaw be authorized to implement a
purchased water cost recovery adjustor mechanism, to allow Bradshaw to impose a
surcharge, to be calculated annually, to recover any additional costs incurred due to
changes in the gallonage charges imposed by Prescott Valley Water District.

Bradshaw's rate application and the Staff Report are available for inspection
during regular business hours at the office of the Commission at 1200 W.
Washington St., Phoenix, AZ 85007, and at Bradshaw's offices at [COMPANY

1 **INSERT ADDRESS].** All documents filed in this matter are also available for
2 review in the e-Docket area of the Commission's website
(<http://edocket.azcc.gov/edocket/>) under Docket No. W-02467A-10-0495.

3 Customer input is an important part of the Commission's analysis of the
4 requested adjustment and is a factor in determining whether a hearing will be
5 conducted. Customers should bring to the Commission's attention any questions or
6 concerns related to Bradshaw, including any questions regarding service, billing
7 procedures, or other factors important in determining the reasonableness of rates
8 and charges. Customers may have the right to intervene in this matter. Any
9 customer wishing to communicate with the Commission, or to request information
on intervention in the proceeding, should contact the Commission's Consumer
Services Section at 800-222-7000 (outside Phoenix local calling area) or 602-542-
4251 (inside Phoenix local calling area). Customers may also contact the Tucson
office of the Commission at 800-535-0148 (outside Tucson local calling area) or
520-628-6555 (inside Tucson local calling area).

10 Customers are advised that the Commission may act upon Bradshaw's rate
11 application without a hearing. Regardless of whether a hearing is held, customer
12 comments submitted in writing will be placed in the office file, which the
13 Commission reviews before making its final decision on the rate application. It is
important that customers contact the Commission within 15 days after receiving
this notice so that the Commission can consider any customer comments and
concerns in determining the outcome of the rate application.

14 **IT IS FURTHER ORDERED that Bradshaw Water Company, Inc. shall, by May 16, 2011,**
15 **file** with the Commission's Docket Control certification that the above notice has been mailed to its
16 customers, along with a complete copy of the form of notice provided, with attachments.

17 **IT IS FURTHER ORDERED that Bradshaw Water Company, Inc. shall, by May 26, 2011,**
18 **file complete answers** to the following:

- 19 • Identify all of the other entities owned or managed by Mr. Bohlier, providing for each the legal
20 name; the type of organization (C corporation, etc.); the nature of Mr. Bohlier's relationship to the
21 entity (owner, manager, etc.); and whether the entity is regulated by the Commission and, if so, in
what capacity (as a water utility, etc.)?
- 22 • For all test year operating costs shared between Bradshaw and any other entity owned or managed
23 by Mr. Bohlier, identify the type of operating cost, the entities between or among which it was
shared, and the shares paid by Bradshaw and each other entity.
- 24 • Describe the method used to determine Bradshaw's portion of each shared operating cost for the
test year.
- 25 • How does Bradshaw propose to allocate shared operating costs on a going-forward basis?
- 26 • For each customer from whom a service line and meter installation charge has been collected since
27 Mr. Bohlier acquired Bradshaw, provide the customer's name; the date the charge was collected;
the amount that was collected; the nature of the charge (service line, meter installation, or both);
28 what portion of the charge has been refunded and when; and whether the account is still active.

- 1 • For any portion of the service line and meter installation charges that have not been refunded in
2 accordance with A.A.C. R14-2-405(B)(2), explain why the refunds have not been made in
3 compliance with the rule.
- 4 • What amount of service line and meter installation charges does Bradshaw currently have on
5 deposit and available to refund to customers?
- 6 • For the \$121,319 identified as advances in aid of construction in the Staff Report, provide the
7 name of the entity advancing the funds; the date the funds were advanced; the amount that was
8 advanced; the plant for which the funds were advanced; what portion of the advanced funds have
9 been refunded and when; what portion of the funds were used to pay for the plant for which they
10 were advanced; whether the funds were advanced pursuant to a main extension agreement and, if
11 so, a copy of the main extension agreement; and whether the main extension agreement was filed
12 with and approved by Staff and, if so, when.
- 13 • Why was Bradshaw collecting impact fees or water development fees and paying them to the
14 Town, what was the amount of each such fee, what was the purpose of each such fee, for how long
15 did this practice continue, and how many such fees were collected in the aggregate?
- 16 • How does Bradshaw explain the 19.33 percent water loss experienced during the test year, and
17 what steps has Bradshaw taken to minimize or eliminate excessive water loss?
- 18 • For calendar year 2010, provide Bradshaw's total water pumped, total water purchased from
19 Prescott Valley Water District, total water sold, and total purchased water expense.
- 20 • Do any of Bradshaw's customers operate commercial enterprises on their properties served by
21 Bradshaw? If so, how many, and what is the nature of each such commercial enterprise?
- 22 • Why do some 5/8" x 3/4" customers have monthly water usage in excess of 20,000 gallons and
23 even as high as 85,000 to 90,000 gallons?

24 IT IS FURTHER ORDERED that Staff shall, by **May 26, 2011**, file complete answers to the
25 following:

- 26 • How did Staff determine that the test year operating costs shared by Bradshaw and other entities
27 owned or managed by Mr. Bohler should be approved? Are all of the shared operating expenses
28 paid by Bradshaw reasonable and appropriate?
- Why did Staff recommend that Bradshaw be ordered to refund the \$9,100 in advanced service line
and meter charges on a going-forward basis, rather than recommending that any refunds that are
past due under A.A.C. R14-2-405(B)(2) be made immediately?
- Why did Staff recommend that the \$121,319 identified as advances in aid of construction made
under main extension agreements be converted to contributions in aid of construction, rather than
recommending that any refunds that are past due under A.A.C. R14-2-406 be paid immediately?
- Did Staff approve the main extension agreements under which the \$121,319 was advanced? If so,
when?
- Has Bradshaw violated A.A.C. R14-2-405(B)(2) and R14-2-406(D) by not providing refunds of
advanced service line and meter charges and/or advances in aid of construction made under main
extension agreements? (If so, explain the nature, time, and extent of each violation.)
- Does Staff intend for its recommended purchased water cost recovery adjustment mechanism

1 initially to commence on April 1, 2012, pursuant to a filing made by Bradshaw on or before
2 February 15, 2012? Does Staff then intend for the same filing deadline and effective date for any
adjustment to apply each year thereafter?

- 3 • How does Staff's recommended purchased water cost recovery adjustment mechanism take into
4 account excessive water loss that results in a higher overall purchased water cost during a year
5 than would have existed had water loss not been excessive? Does Staff's recommended
adjustment mechanism ensure that customers are not being required unfairly to pay for excessive
lost water?
- 6 • Why does Staff recommend that Bradshaw notify its customers of any changes in the surcharge
7 within 30 days after the Prescott Valley Water District notifies Bradshaw of a change in its water
charges, if the surcharge can only be adjusted once each year, effective April 1, based on the
8 purchased water cost for the entire preceding year?
- 9 • Does Staff have any additional recommendations or any revisions to its existing
recommendations?

10 IT IS FURTHER ORDERED that **Bradshaw Water Company, Inc. and Staff** each shall, by
11 **June 9, 2011, file responses** to each other's answers.

12 IT IS FURTHER ORDERED that the time frame for the Commission to issue a final order in
13 this matter is hereby **extended by 60 days**.

14 IT IS FURTHER ORDERED that any motions filed in this matter that are not ruled upon by
15 the Commission within 20 calendar days of the filing date of the motion shall be deemed denied.

16 IT IS FURTHER ORDERED that any responses to motions shall be filed within five calendar
17 days of the filing date of the motion.

18 IT IS FURTHER ORDERED that any replies shall be filed within five calendar days of the
19 filing date of the response.

20 IT IS FURTHER ORDERED that notice shall be deemed complete upon mailing/publication
21 of same, notwithstanding the failure of an individual to read or receive the notice.

22 IT IS FURTHER ORDERED that all parties must comply with Rules 31 and 38 of the Rules
23 of the Arizona Supreme Court and A.R.S. § 40-243 with respect to the practice of law and admission
24 *pro hac vice*.

25 IT IS FURTHER ORDERED that withdrawal of representation must be made in compliance
26 with A.A.C. R14-3-104(E) and Rule 1.16 of the Rules of Professional Conduct (under Rule 42 of the
27 rules of the Arizona Supreme Court). Representation before the Commission includes the obligation
28 to appear at all hearings, prehearing conferences, procedural conferences, and Open Meetings at

1 which the matter is scheduled for discussion, unless counsel has previously been granted permission
2 to withdraw by the Administrative Law Judge or the Commission.

3 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113 - Unauthorized
4 Communications) applies to this proceeding and shall remain in effect until the Commission's
5 Decision in this matter is final and non-appealable.

6 IT IS FURTHER ORDERED that the time periods specified herein shall not be extended
7 pursuant to Rule 6(a) or (e) of the Rules of Civil Procedure.

8 IT IS FURTHER ORDERED that the Administrative Law Judge may rescind, alter, amend,
9 or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at
10 hearing.

11 DATED this 26th day of April, 2011.




SARAH N. HARPRING
ADMINISTRATIVE LAW JUDGE

15 Copies of the foregoing mailed/delivered
16 this 26th day of April, 2011, to:

17 Don Bohler
18 Bradshaw Water Company
19 P.O. Box 12758
Prescott, AZ 86304

20 Janice Alward, Chief Counsel
21 Legal Division
22 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

23 Steven M. Olea, Director
24 Utilities Division
25 ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, AZ 85007

26 By: 
27 Debra Broyles
28 Secretary to Sarah N. Harpring